

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 H-03 SP-03 AID-20 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 PRS-01 NIC-01 SAJ-01 DRC-01 /152 W

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FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 1898

INFO AMEMBASSY MOSCOW

C O N F I D E N T I A L BUDAPEST 2433

E.O. 11652: GDS

TAGS: EFIN, HU

SUBJECT: BANK VP ON MONETARY REFORM

1. NATIONAL BANK VP JANOS FEKETE TOLD AMBASSADOR AND CODEL LONG AUG 31 THAT HE BELIEVES IMPORTANT KEY TO ENDING WORLD-WIDE INFLATION AND RESTORING CONFIDENCE IN INTERNATIONAL MONETARY MATTERS IS TO RE-ESTABLISH AN OBJECTIVE INTERNATIONAL MONETARY STANDARD. AT CURRENT STAGE OF HISTORY HE BELIEVES THIS MUST BE BASED ON GOLD, NOT THROUGH CONVERTIBILITY BUT AS A REQUIRED RESERVE. HE SUGGESTED THAT SYSTEM SHOULD REQUIRE NATIONS TO MAINTAIN A MINIMUM GOLD RESERVE OF 10-15 PERCENT OR SO AS A LIMITATION ON THEIR CURRENCY ISSUES. HE ALSO SAID THE NEW SYSTEM MUST INCLUDE EE COUNTRIES AS WELL AS WESTERN ONES. SAID SVIET PROPOSAL FOR A RETURN TO GOLD STANDARD WAS BASED ON THEIR GOLD PRODUCTION AND WAS OBVIOUSLY NOT FEASIBLE; THE WORLD WOULD NOT PUT ITSELF INTO HANDS OF USSR AND SOUTH AFRICA. ON OTHER HAND SDRS, WHICH U.S. FAVORED, WERE TOO COMPLICATED. HE COULD NOT RELY ON THEM AS AN OBJECTIVE MEASURE, FOR EXAMPLE, BECAUSE THEIR VALUE WOULD BE SUBJECT TO CHANGES IN VALUES OF SO MANY NATIONAL CURRENCIES AND WHOLE SYSTEM WOULD BE TOO UNCERTAIN AND COMPLICATED. EXPRESSED ADMIRATION FOR
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BRETON WOODS DECISIONS AND SAID THAT WE HAD UNDERESTIMATED

DESTABILIZING EFFECT ON WORLD ECONOMY OF MOVING AWAY FROM GOLD IN 1971. HE HOPED WE COULD MAKE A GOLD RESERVE PROPOSAL TO SOVIETS, SAYING THEY WOULD LISTEN TO U.S. BUT NOT TO SOMEONE FROM HUNGARY,

2. FEKETE, IN ANALYSIS OF WORLD ECONOMIC SITUATION ALSO SAID THAT HE WAS OPTIMISTIC ABOUT FUTURE STRENGTH OF U.S. DOLLAR EVEN THOUGH HIS VIEW OPPOSED BY MOST OF HIS COLLEAGUES. SAID HE WAS SUPPORTED BY HIS BANK PRESIDENT (LASZLO), AND IT WAS CLEAR FROM WHAT HE SAID THAT GOH HAS MOVED ITS FUNDS FROM WE CURRENCIES INTO DOLLARS IN LAST FEW MONTHS. FEKETE SAID THERE WOULD BE FURTHER REVALUATION OF FORINT VIS-A-VIS WE CURRENCIES BUT NOT TOWARD THE DOLLAR.

3. FEKETE HAS EXCELLENT TRACK RECORD ON PREDICTING STRENGTH OF CURRENCIES AND AS A CONSEQUENCE NATIONAL BANK MADE HANDSOME PROFIT ON EARLIER DEVALUATION OF U.S. DOLLAR BY MOVING OUT OF DOLLARS IN TIME.
PEDERSEN

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